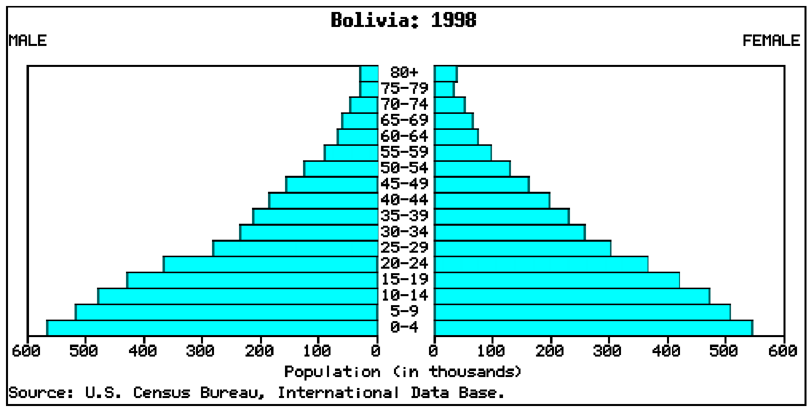
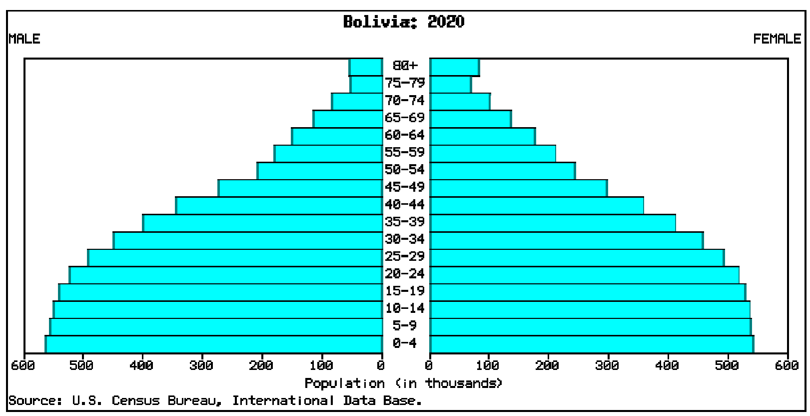
Bolivia

Summary of Current System			
	Pillar 1	**Pillar 2**	**Pillar 3**
Type:	♦ Defined-benefit	♦ Defined-contribution	♦ Defined-contribution
Participation:	♦ Mandatory	♦ Mandatory	♦ Voluntary
Management:	♦ Publicly-managed	♦ Privately-managed	♦ Privately-managed
Financing:	♦ PAYGO	♦ Fully-funded	♦ Fully-funded
Coverage:	♦ All workers; voluntary coverage for the self-employed.	♦ All workers; voluntary coverage for the self-employed	♦ Participating employees
Eligibility:	♦ Age 55 for men and age 50 for women and 15 years of contribution	♦ Age 65 for both men and women or when accumulated balance allow benefits that amount to at least 70 percent of last five years' of earnings	♦ Age 65

Challenges Facing Pension System

- ❑ Financial instability of pension fund
- ❑ Demographic Shifts





Summary of Current System

The Bolivian pension reform law enacted in November 1996, replaced a publicly managed pay-as-you-go (PAYGO) system. Currently in the implementation phase, the new pension system consists primarily of privately managed, individual accounts with a mandatory component (Pillar II) and a voluntary component (Pillar III).

All workers are required to participate in the second pillar and may voluntarily participate in the third pillar, while self-employed workers earning a minimum wage may voluntarily participate in the private pension system. Current contributors to the public pension system were automatically transferred into the new privatized system in May 1997. Existing retirees will continue to receive their pension benefits under the public pension system.

Individual pension accounts are managed by private pension fund administrators known as *AFPs* (*Administradora de Fondos de Pensiones*). Mandatory contributions equal to 12.5 percent of wages are assessed on workers. Each worker places 10.0 percent of their wages into individual retirement accounts; 2.0 percent is directed to disability and survivors pensions; and 0.5 percent pays for *AFP* administrative services. For the first five years of the new system, only two *AFPs* will be authorized to operate pension funds. Competition among *AFPs* will increase after five years as more *AFPs* are allowed to participate. Workers are also permitted to make voluntary contributions to their individual accounts. This option gives workers more control over the value of their accounts and greater flexibility as to when benefit payments begin.

Workers receive benefits equal to their contributions plus accrued interest. The official retirement age is 65 years old for both men and women. However, workers are allowed to collect pension benefits before 65 if their individual fund balance has accumulated savings that can replace at least 70 percent

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SELECTED INDICATORS		
	Year	
Demographic	*1998*	*2020*
Total Population (in thousands)	7,826	11,245
Life Expectancy at Birth (Years)	60.89	71.23
Total Fertility Rate (Child Born per Woman)	4.05	2.35
Age Dependency Ratio (percent)	11.7	14.7
	1980-2000	*2000-2020*
Average Annual Rate of Population Growth (percent)	2.0	1.6

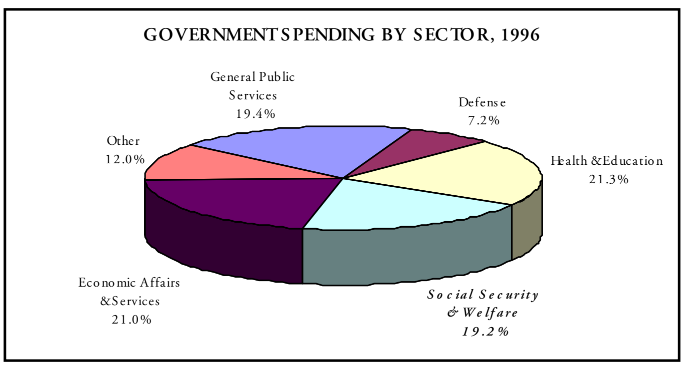
Source: U.S. Bureau of Census, International Data Base.

Economic	*1996*
GNP (PPP in billions)[1]	21.7
GNP Average Annual Growth Rate, 1995-1996 (percent)[1]	5.0
GNP Per Capita (in PPP)[1]	2,860
Inflation Rate (percent)[2]	12.4
Labor Force Participation Rate (percent)[3]	40.3
Unemployment Rate (percent)[3]	4.2

Source: [1]World Bank; [2]IMF; [3]International Labour Office.

Pension	*1997*
System Dependency Ratio, 1995 (percent)[1]	32.3
Employee Contribution Rate for Pensions (percent of earnings)[2]	12.5
Employer Contribution Rate for Pensions (percent of payroll)[2]	None
Public Pension Spending as % of Govt. Spending	n/a
Public Pension Spending as % of GDP, 1995 (percent)[1]	2.5

Sources: [1]World Bank; [2]U.S. Social Security Administration.



Source: International Monetary Fund. Government Finance Statistics Yearbook, 1997.

of their average wage (based on the last five years of earnings). Pension benefits are indexed to the US dollar.

A distinct feature of Bolivian pension reform is its link with the country's capitalization efforts. Capitalization differs from privatization in that proceeds from sales of state-owned enterprises remain with the enterprise to finance future investments. The investor and the government each hold 50 percent ownership in the enterprise. The government shares have been transferred to the private pension system, where pension administrators manage these funds. Dividends from the funds, however, are being distributed back to the population through a program called *Bolivida*. The *Bolivida* replaces the *Bonosol* payment, which provided minimum pension benefits to retirement aged individuals.

The *Bolivida* provides payments (amounting to US$90) to those over 65 years. These payments amount to 30 percent of the capitalization funds. The remaining proceeds will be distributed as fiduciary certificates to Bolivians who register for the program. No regulations have been released regarding the distribution of these funds.

Problems Leading to Pension Reform

Several factors prompted reform of the pension system. The financial stability of the PAYGO system was untenable. Before the reforms deficits amounted to more than 1 percent of GDP between 1993 and 1996 and were estimated to rise to 5 percent of GDP by 2020. Deficits were caused by the adverse economic conditions, with hyperinflation in 1982 and 1985 contributing to the erosion of pension benefits and reserves.

The low number of contributors to the pension system also affected the stability of the pension fund. Only 12 percent of the economically active population on average contributed to the pension system. There was widespread evasion because contributions were viewed as an added tax. In addition, declining birthrates, combined with extended life expectancy, increased the number of recipients and reduced the number of contributors to the pension system. Finally, the system was considered to be inefficient and costly, with administrative costs accounting for 17 percent of contributions.

Challenges Facing Reformed System

A number of challenges to pension reform include transition costs and capital markets reform. The new system allows for a gradual phase-out of the public pension system. Initial transition costs are an estimated 2.7 percent of GDP in 1998, declining to 0.18 percent of GDP by 2037. A complementary reform effort currently underway is the development of a regulatory framework for development of capital markets and the insurance sector. Recently passed legislation consolidates financial sector supervision under one agency, which will oversee pensions, the stock market, and the insurance industry. Banking activities however will remain with the banking superintendent. Furthermore, a new stock market law was passed, which will open the market to investors, and provide new financial products to consumers.

Pension Reform Efforts by Pillar

	Pillar 1	Pillar 2	Pillar 3
Papers issued on state of pension systems		✓	✓
Formulation of proposals		✓	✓
Development of draft legislation		✓	✓
Introduction of legislation by parliament		✓	✓
Review of legislation by parliament		✓	✓
Passage of legislation by parliament		✓	✓
Implementation of legislation		✓	✓